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Economic
Development
And Trade

Alberta Business Outlook

Alberta
ECONOMIC DEVELOPMENT
AND TRADE

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1990-1991 ALBERTA BUSINESS OUTLOOK

During the week of September 24 - 28, 1990, Alberta Economic Development & Trade conducted its semi-annual survey of private sector forecasters. The survey attempts to identify a "consensus forecast" for the global, North American, and Alberta economies over the next two years. The 1990-1991 Alberta Business Outlook is based on the results of this survey, and on an in-depth analysis of the recent performance and emerging trends in key sectors of the Alberta economy.

Alberta is now entering a period of more stable and diversified economic growth. While the energy and agriculture sectors will continue to be major contributors to Alberta's economic performance, much of the new growth will be broader based and spread across a number of industries, including forestry, petrochemicals and chemical products, advanced technologies, tourism, and the business service industries.

As shown in Table 1, international and interprovincial exports accounted for 37% of Alberta's Gross Domestic Product (GDP) in 1989. The outlook for the global economy, and particularly the North American economies, is therefore critical to forecasting future economic activity in Alberta. Financial markets, energy prices, and the Federal Government's policies and programs also have an important bearing on Alberta's business outlook.

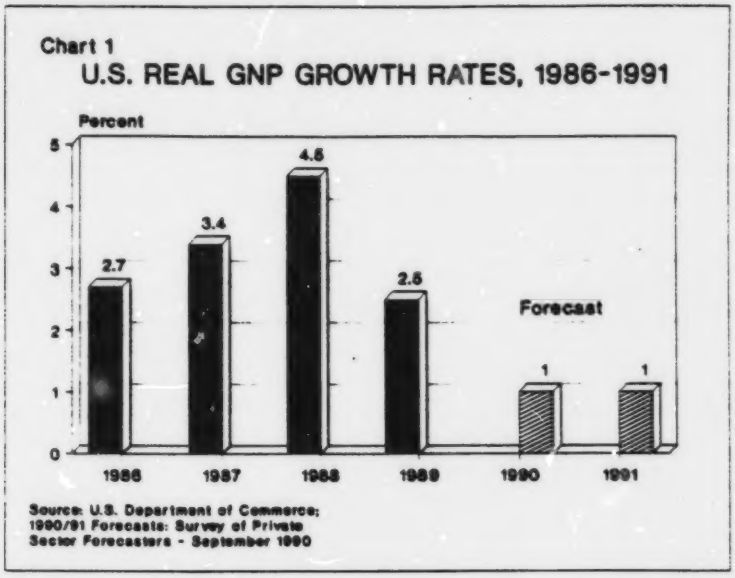
TABLE 1: ALBERTA'S EXPORT MARKETS - 1989

	Total Merchandise Exports ($ Millions)		Share of Alberta GDP (%)
Total International	13,057		19.6
- U.S.	9,544	14.3	
- Asia	2,131	3.2	
- Europe	513	0.8	
- Other International	869	1.3	
Rest of Canada	11,703		17.5
Total Merchandise Exports (International and Interprovincial)	**24,760**		**37.1**

Source: Alberta Economic Development & Trade

OUTLOOK FOR THE U.S.

Chart 1 outlines the recent performance and short term outlook for the U.S. economy.



Highlights

- *Real economic growth in the U.S. slowed sharply from 4.5% in 1988 to 2.5% in 1989. The economy has weakened further during the first half of this year. This situation, coupled with a significant rise in world oil prices caused by the recent crisis in the Middle East, has markedly weakened the near term outlook for the U.S. economy. As a result, growth in real U.S. Gross National Product (GNP) is forecast to average only 1.0% in both 1990 and 1991.*

- *Higher oil prices will also fuel inflation, and are expected to add about 1.0% to the U.S. Consumer Price Index (CPI) over the next six months.*

- *A mild recession - technically defined as two consecutive quarters of declining output - now appears much more likely to occur sometime over the next six to nine months.*

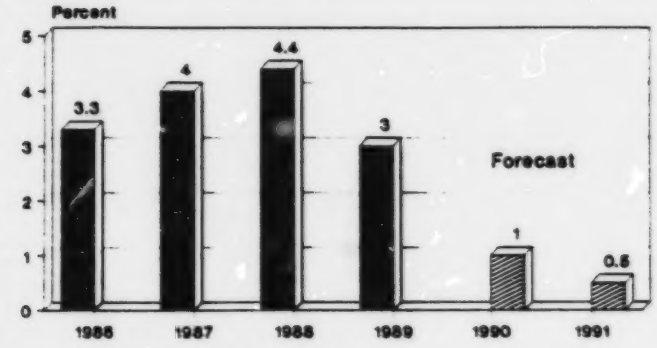
- *While the slowdown in the U.S. economy will have a dampening effect on Alberta's manufactured exports, this will be offset somewhat by the higher value of crude oil and natural gas shipments to U.S. markets. In 1989, the U.S. accounted for more than 70% of Alberta's total international merchandise exports, with close to 60% of U.S.-bound exports consisting of crude oil and natural gas.*

OUTLOOK FOR CANADA

Chart 2 outlines the recent performance and short term outlook for the Canadian economy.

Chart 2

CANADIAN REAL GDP GROWTH RATES, 1986-1991



Source: Statistics Canada; 1990/91
Forecasts: Survey of Private Sector
Forecasters - September 1990

Highlights

- *Real economic growth in Canada slowed in 1989 to 3.0% from a fairly robust 4.4% growth rate in 1988. Many factors contributed to the slowdown, including a steady increase in Canadian interest rates, a strong Canadian dollar, and weaker commodity prices.*

- *The Bank of Canada's high interest rate policy and the slowdown in U.S. economic growth will continue to weaken Canada's economic performance in 1990 and 1991.*

- *A mild recession is now likely for the Canadian economy starting in the second quarter of 1990 and lasting until the second quarter of 1991.*

- *Canada's rate of inflation is expected to rise sharply with the introduction of the Federal Government's Goods and Services Tax (GST) on January 1, 1991. Inflation is expected to average 6.2% in 1991, up from 4.8% in 1990. The GST will also weaken consumer spending and residential construction, particularly in the first two quarters of 1991.*

- Given current inflationary pressures, the sharp increase in world oil prices will likely reinforce the Bank of Canada's commitment to a firm monetary policy. While the Canadian dollar and interest rates are unlikely to rise, their expected fall could be slower or delayed.

- *Alberta is expected to benefit significantly from the recent increase in oil prices, but the potential for a prolonged recession in Central Canada is also much greater.*

The main risk to the Canadian and Alberta forecasts arises from the August 2nd Iraqi invasion of Kuwait. The resulting international crisis has pushed crude oil prices up sharply and it is not yet clear how this conflict will be resolved or what the medium to longer term impact will be on energy prices and markets. Higher world oil prices, approaching $40 (U.S.) a barrel over the week of September 24 - 28, have increased the risks of a global recession and are creating considerable uncertainty in forecasting economic activity in all countries.

OUTLOOK FOR ALBERTA

Table 2 shows the results of the September 24 - 28 survey of private sector forecasts for the Alberta economy. The general consensus is that real economic growth in Alberta will exceed the Canadian average and likely lead all provinces in both 1990 and 1991. While real growth rates for the Canadian economy are forecast at 1.0% in 1990 and 0.5% in 1991, real growth rates in Alberta are forecast to be about 2.0% in 1990, and between 1.5% and 2.0% in 1991.

Table 2

Current Economic Forecasts for Alberta

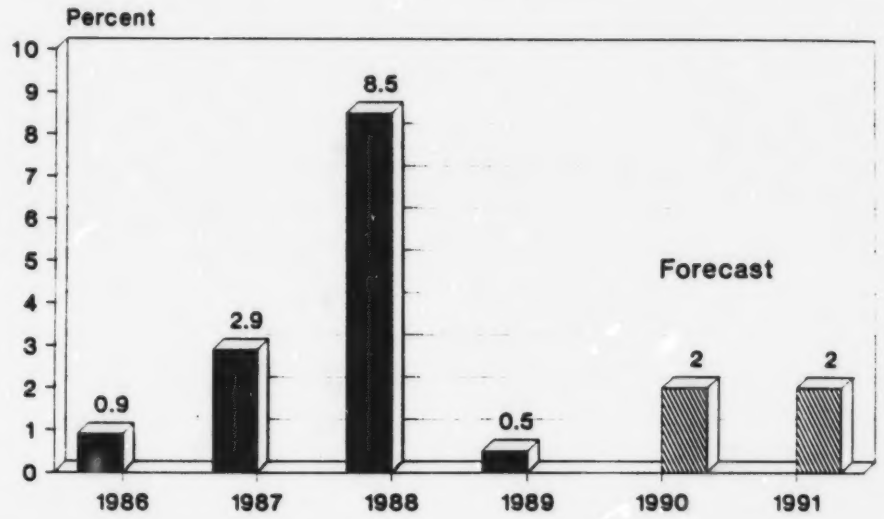
	Real GDP (% Change)			Employment (% Change)			Unemployment Rate (Percent)			Housing Starts ('000)			Retail Sales (% Change)			Consumer Price Index (% Change)		
	1989	1990	1991	1989	1990	1991	1989	1990	1991	1989	1990	1991	1989	1990	1991	1989	1990	1991
Bank of Montreal (September 1990)	1.5	2.5	1.8	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----
Conference Board of Canada (September 1990)	0.9	2.3	1.2	2.3	1.6	0.7	7.2	6.8	7.9	14.6	20.4	17.0	7.9	4.2	6.0	4.2	5.5	6.2
Toronto-Dominion Bank (September 1990)	3.1	2.3	1.7	2.3	1.5	1.2	7.2	6.9	7.3	14.7	16.0	14.0	----	----	----	4.2	6.0	6.7
Royal Bank of Canada (September 1990)	2.3	1.2	1.7	2.4	1.6	1.2	7.2	6.8	7.4	14.7	17.5	14.5	7.9	3.0	6.5	4.2	5.4	6.3
Canadian Imperial Bank of Commerce (September 1990)	2.5	2.0	2.0	2.4	1.5	1.5	7.2	7.4	7.3	14.7	15.5	12.8	----	----	----	4.2	5.6	6.3

Source: Alberta Economic Development & Trade, Survey of Private Sector Forecasters - September 1990

Chart 3 outlines the real growth rates for the Alberta economy over the period 1986-1989, as well as the consensus forecast for 1990 and 1991 (based on the September 24 - 28 survey of private sector forecasters).

Chart 3

ALBERTA REAL GDP GROWTH RATES, 1986-1991



Source: Statistics Canada; 1990/91 Forecasts: Survey of Private Sector Forecasters - September 1990

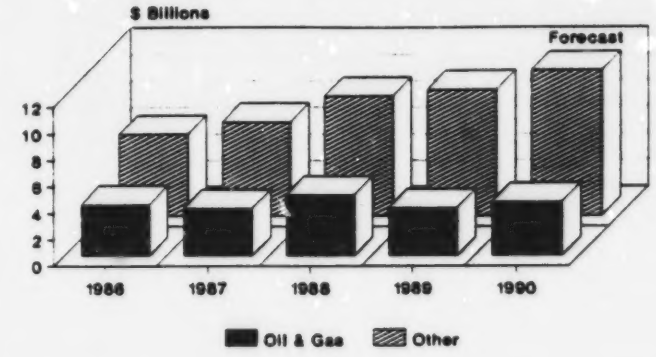
Alberta Outlook - Highlights

- Real GDP growth in Alberta will exceed the Canadian average and likely lead all provinces in both 1990 and 1991, with real growth rates averaging about 2.0% in both years. If world oil prices remain above $25 (U.S.) a barrel, growth in 1991 could be higher than forecast.

- Alberta's economic growth will again be led by investment activity. The expected recovery in oil and gas investment, combined with continued investment outside of the energy sector, will stimulate growth in other sectors of the economy. With over $24 billion in major industrial development projects announced, planned, or under construction in the Province, capital investment will continue to make a strong contribution to Alberta's future economic growth.

Chart 4

ALBERTA PRIVATE INVESTMENT, 1986-1990



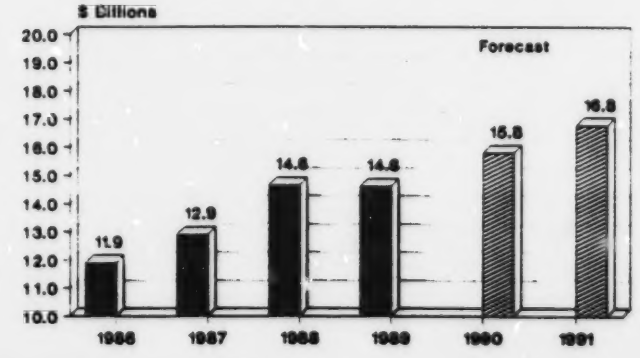
Source: Statistics Canada

- Chart 4 shows that Alberta's diversification efforts are succeeding. In recent years, an increasing share of private investment has been placed in industries outside the energy sector. Since the mid-1980s, business investment in these industries has climbed by almost 65%.

- Alberta's international exports of goods and services are forecast to increase from $14.6 billion in 1989 to $15.8 billion in 1990 (an 8.2% increase), and to $16.8 billion in 1991 (a 6.3% increase). Should oil prices remain at or near current levels, the value of these exports would likely be higher than the current 1990 and 1991 forecasts.

Chart 5

ALBERTA'S INTERNATIONAL GOODS AND SERVICES EXPORTS, 1986-1991

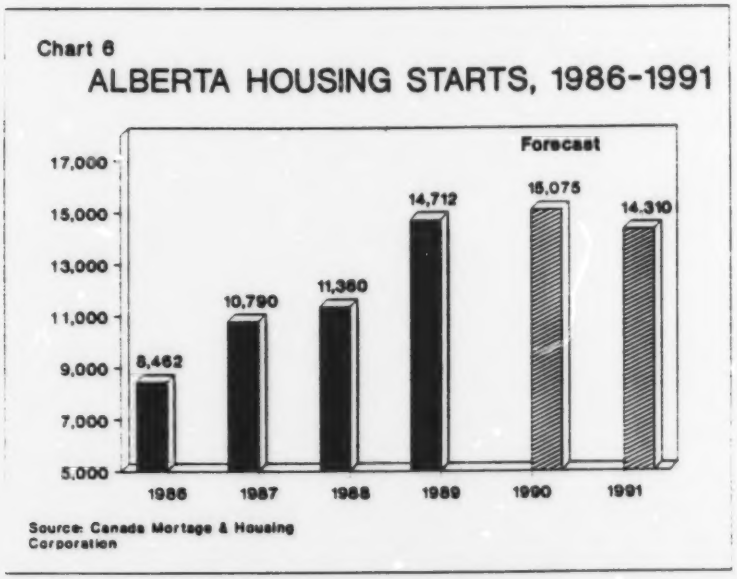


Source: Alberta Economic Development & Trade

- While high interest rates have had an adverse impact on consumer spending in recent months, there are indications that consumers may begin to increase expenditures once again. It is anticipated that buying activity will accelerate towards the end of this year, as short term interest rates continue to decline and as consumers advance certain purchases to avoid the GST. In the first half of 1991, growth in consumer spending is expected to weaken as a result of the GST.

- The Canada Mortgage and Housing Corporation is forecasting that housing starts in Alberta will total 15,075 units in 1990, and 14,310 in 1991. With sustained economic, population and employment growth, Alberta's residential markets will remain strong over the forecast period, although more moderate rates of growth are predicted. A weakening in consumer confidence in the face of high interest rates, and uncertainty regarding the economic impacts of the GST, are both expected to result in relatively slower growth in the resale and new housing markets over the next one to two years.

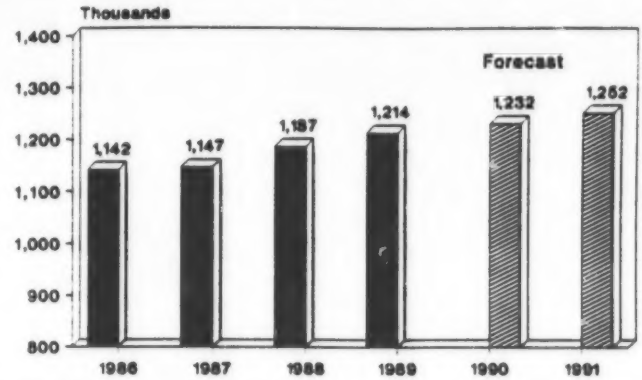
Chart 6



- Alberta has experienced strong employment growth in recent years, with over 40,000 new jobs created in 1988 and another 27,000 in 1989. Total Alberta employment is expected to increase by another 18,000 in 1990 and 20,000 in 1991, representing annual increases in the 1.5% range.

- On a seasonally adjusted basis, Alberta's unemployment rate of 6.9% in August 1990 was the second lowest in Canada. Alberta also continues to have the highest proportion of its working age population employed. Out of every 1,000 working age Albertans, 667 (seasonally adjusted) were employed in August 1990.

Chart 7 EMPLOYED LABOUR FORCE, ALBERTA, 1986-1991



Source: Statistics Canada; 1990/91 Forecasts: Survey of Private Sector Forecasters - September 1990

- Greater employment opportunities are continuing to result in higher levels of migration to Alberta. In 1989, the positive net migration to the Province was due to a high level of international migration, primarily from Asian and European countries. Over the next two years, additional migrants are expected from other provinces as well, further increasing the flow of people into Alberta. Total net migration is forecast to reach 12,000 in 1990 and increase to 14,300 in 1991.

SECTOR OUTLOOKS

Oil and Gas

- Alberta has three kinds of oil resources which are classified by density: conventional crude oil, heavy oil, and oil sands. In 1989, Alberta production from these three sources totalled just under 1.4 million barrels a day, or 82% of total Canadian production.

- Alberta's established natural gas reserves are estimated at 1,628 billion cubic metres or 85% of conventional Canadian reserves. In addition, estimates of natural gas remaining to be discovered and developed total 1,667 billion cubic metres. One of the major finds in the last decade is the Caroline field, with an estimated reserve of 21 billion cubic metres of gas, 30.7 million cubic metres of natural gas liquids, and 23 million tonnes of sulphur. Construction of Shell Canada's $825 million gas processing plant at Caroline is expected to commence this Fall.

- At present, increased gas exports from Alberta to the U.S. are limited by pipeline capacity. However, numerous pipeline expansion projects have been proposed with estimated capital costs of more than $10 billion. Considering

the environmental advantages of natural gas over other sources of energy, and the expected future domestic supply shortages in the U.S., the long term growth potential for Alberta gas sales to the U.S. is very positive.

- Oil and gas investment is expected to recover from 1989 levels, and will be encouraged by the recent increase in world oil prices to over $30 (U.S.) a barrel. Although a modest increase in drilling activity is forecast for 1990 and 1991, the recent increases in industry revenues brought on by higher oil prices are not expected to generate a substantial resurgence in activity. Producers will need to be confident that oil prices will be sustained over the medium term before they commit themselves to expanded exploration and development activities.

- If world oil prices remain above $25 (U.S.) a barrel over the next few months - and the expectation is that prices are sustainable at these levels - Alberta could see a significant increase in both oil and gas drilling activity and in non-conventional oil production (i.e., synthetic oil production from heavy oil and oil sands). Natural gas prices would also be expected to firm and show some improvement if oil prices remain at current levels over the next few months.

- Natural gas export volumes, all of which go to the U.S., are forecast to increase by 7% in 1990 and 6% in 1991. The recovery in gas export prices is expected to occur somewhat more quickly with the recent increase in crude oil prices.

AGRICULTURE

- Agriculture makes an important contribution to the Alberta economy, both at the primary producing level and through secondary processing by the food and beverage industry. Reflecting this, the estimated $4.5 billion in farm cash receipts generated by the Province's farming enterprises in 1989 was enhanced by a further $4.5 billion worth of shipments by the food and beverage industry.

- Realized Net Farm Income in 1990 is expected to total $520 million, representing a 34% decline from the 1989 level of $783 million. This decline is primarily the result of the lower level of program payments to Alberta farmers and decreased grain and oilseed receipts.

- Farm cash receipts for 1990 are estimated at $4,322 million, down from the 1989 level of $4,509 million. Crop receipts are projected to equal $1,924 million, down 12% from the 1989 level of $2,192 million. The declines are the result of lower prices for grains and oilseeds, and the reductions in program payments.

- Livestock receipts for 1990 are expected to increase from 1989 levels by 3% to $2,398 million. Increased cattle output, due to increased numbers and slaughter weights, and improved hog prices will both work to increase receipts, but will be countered somewhat by decreased program payments, especially ASA tripartite payments.

MANUFACTURING

- Since 1978, when manufacturing shipments were $7.4 billion, the value of shipments has increased by an annual average rate of 9%. In 1989, the estimated value of Alberta manufacturing shipments totalled $18.6 billion and the sector employed an average of 97,000 workers (compared to about 56,000 in the energy sector).

- Alberta has been highly successful in attracting new investment to further upgrade resources and to develop new product lines. Over the next three to four years, planned investment in major capital projects in Alberta's manufacturing sector is forecast at about $5.5 billion.

- Total annual capital investment in the manufacturing sector has more than doubled over the past three years, from $1 billion in 1987 to more than $2.2 billion in 1990. This significant growth in investment is expected to translate into strong growth in employment and production over the medium term.

- In real terms, Alberta's manufacturing output is forecast to increase by approximately 3% in 1990, and by another 3% in 1991. In 1991, output may increase further if higher oil prices result in increased investment in oil and gasfield equipment production.

- Alberta's forest products industry alone represents more than $3 billion worth of new investment from major projects recently completed, under construction, or planned over the next two to three years. Roughly 4,000 direct operating jobs will be created once all of these projects are completed.

- Despite the current downturn in petrochemical prices, a new round of plant investment (valued at nearly $2 billion) is planned in Alberta over the next three to four years. Construction is scheduled to begin on Dow Chemical's $800 million hydrocarbons project in Fort Saskatchewan. Related downstream derivative production facilities include the $425 million ethylene glycol plant proposed by Union Carbide.

- Petro-Canada and Neste Oy have begun construction of a $300 million methyl tertiary butyl ether (MTBE) plant in Strathcona County near Edmonton. This project will use Alberta field butane and methanol as a feedstock for MTBE production.

- Major new investment is also taking place in Alberta's specialty chemical industry to supply the pulp and paper industry. Construction has begun on Dupont Canada's $120 million hydrogen peroxide plant at Gibbons, plus three sodium chlorate plants, valued at more than $150 million.

ADVANCED TECHNOLOGIES

- Advanced technologies are one of the areas where Alberta has achieved some of the most dramatic growth and accomplishments in terms of economic diversification. Alberta now has over 750 technology intensive companies, with many of these companies having been established in the last five years.

Today, there are 78,000 individuals employed by technology intensive firms in Alberta, and these firms are generating more than $4 billion in annual revenues.

- Alberta companies are actively involved in a wide range of activities including medical research and biotechnology, pharmaceuticals, telecommunications, electronics, computers and software, and advanced composite materials. Plastics, ceramics, and other composite materials, for example, represent a major growth opportunity for Alberta. Developments such as Sherritt Gordon's $140 million WESTAIM project in Fort Saskatchewan should position Alberta in the forefront of this emerging, high growth industry, creating numerous spin-off manufacturing opportunities.

Service Industries

- Alberta's service sector is extremely diverse and accounts for some 60% of the Province's GDP and more than 70% of provincial employment. This includes employment in the more traditional service industries, such as retail trade and food and accommodation services. It also includes an increasing number of workers in the business service industries, such as engineering, scientific, technical and professional services, management consulting, computer and data processing services, transportation, telecommunications, and financial services.

- Business services have led the growth of the service sector in recent years. Exports of business services are also one of the fastest growing areas of international commerce - accounting for almost one-fifth of world trade and an estimated 6% of Alberta's total international exports ($830 million in 1989, excluding tourism). Continued growth in capital investment, combined with the increased activity in the forestry and manufacturing sectors, will further stimulate growth in the business service industries over the next few years.

- The business service industries are playing an increasingly important role in improving the productivity and competitiveness of Alberta's resource and manufacturing sectors. Over the next decade, further development of these linkages will be essential if Alberta is to maintain its global competitiveness and high standard of living.

- In 1990, Alberta's tourism industry is forecast to generate $2.8 billion in receipts and provide 75,000 person years of employment. With tourism forecast to become the world's largest industry by the year 2000, Alberta's tourism industry should continue to experience steady growth over the next decade.

- Although the long term prospects for Alberta's tourism industry look promising, the outlook for 1991 is for little if any growth. The implementation of the GST is expected to have an adverse impact on tourism revenues. Furthermore, the economic slowdown forecast for the U.S. and Canadian economies is expected to result in fewer visitors to Alberta with a corresponding decline in expenditures.